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Securing progress in an uncertain world


The
**Budget
in Brief**
2001



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Minister of Finance

December 10, 2001

Canada 



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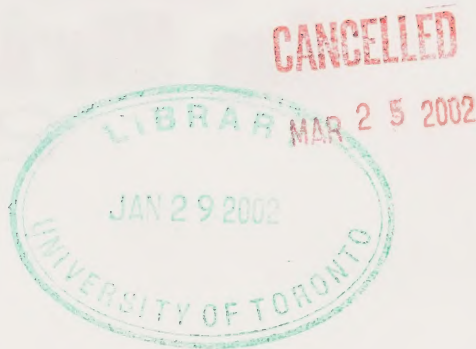
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Department of Finance
Canada

Ministère des Finances
Canada



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Budget 2001

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society, but it also responds to immediate economic and security concerns. It does this in four ways:

- first, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year;
- second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient;
- third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years; and
- fourth, it fully protects the \$100-billion tax cut and the \$23.4 billion in increased support for health care and early childhood development.

Global Economic Slowdown and Implications for Canada

Economic growth in all major economies slowed sharply in the first half of this year. A variety of factors contributed to the global slowdown, including higher interest rates and energy prices and a sharp decline in global high technology investment. The events of September 11 introduced a further shock to the global economy through disruptions in economic activity and sharp declines in confidence, particularly in the United States.

Forecasters have further downgraded their outlook for the U.S. economy, incorporating a recession now underway. Weakness in the U.S. economy is expected through the first half of 2002, followed by a rebound in the second half of the year.

This is affecting the Canadian economy, which has slowed considerably in response to weaker export demand from our largest trading partner. The Canadian economy contracted in the third quarter, and most private sector forecasters expect further weakness in the fourth quarter. They expect positive but modest growth in the first half of 2002, with growth picking up in the second half of the year.

There is considerable uncertainty in the global outlook. If U.S. consumer and business confidence erode further, global growth could remain weak and the recovery could be delayed.

Canada is better positioned than in the previous downturn of the early 1990s to weather difficult economic times because of:

- healthier finances through balanced budgets and debt repayment;
- the \$100-billion tax cut, proportionately larger than in the U.S.;
- low and stable inflation;
- declining foreign debt; and
- historically low interest rates.

Canada's Fiscal Progress Through 2000-2001

The federal government recorded a budgetary surplus of \$17.1 billion in 2000-01. This is the largest annual surplus since Confederation and the fourth consecutive annual surplus, following surpluses of \$3.5 billion in 1997-98, \$2.9 billion in 1998-99 and \$12.3 billion in 1999-2000.

Net public debt has declined \$35.8 billion from its peak of \$583.2 billion in 1996-97 to stand at \$547.4 billion. This debt paydown, coupled with Canada's strong economic growth, has resulted in a significant decline in the federal debt-to-GDP (gross domestic product) ratio, from its peak of 70.7 per cent in 1995-96 to 51.8 per cent in 2000-01. This decline in net public debt has resulted in ongoing savings in debt interest payments of about \$2.5 billion each and every year.

Federal market debt – the debt issued on credit markets – has declined by over \$30 billion from its peak of \$476.9 billion in 1996-97 to \$446.4 billion in 2000-01. The market debt-to-GDP ratio has declined to 42.3 per cent, down from its peak of 57.8 per cent in 1995-96.

The amount of every revenue dollar collected by the federal government that is used to pay interest on the public debt declined to 23.6 cents in 2000-01, down from 36 cents in 1995-96, and is now at its lowest level since 1981-82.

Federal program spending as a percentage of GDP has fallen from 16.4 per cent in 1993-94 to 11.3 per cent in 2000-01, its lowest level since 1948-49. More than two-thirds of the improvement in the budgetary balance since 1993-94 is attributable to the decline in program spending.

The aggregate provincial-territorial budget recorded a record surplus of \$12 billion in 2000-01, the second consecutive surplus. Eight provinces and two territories reported budgetary surpluses in 2000-01.

On a total government basis, between 1992 and 2000 Canada achieved the largest improvement in its financial balance of all Group of Seven (G-7) countries. In 2000 Canada's surplus reached 3.2 per cent of GDP, compared to an average deficit of 0.1 per cent for the G-7 countries.

Private Sector Five-Year Economic and Fiscal Projections

The Department of Finance meets each fall with the chief economists of the major chartered banks and three private sector economic forecasting firms. The objective of this exercise is to agree on a set of economic assumptions for planning purposes, which the forecasting firms then use to develop fiscal projections of the budgetary balance for the current fiscal year and each of the next five years. However, because of the greater degree of uncertainty associated with longer-term projections, budget decisions are made on a rolling two-year horizon.

In the absence of any policy decisions proposed in this budget, the average private sector projections of the surplus for fiscal-planning purposes are \$7.3 billion in 2001-02, \$3.8 billion in 2002-03, \$5.7 billion in both 2003-04 and 2004-05, \$9.7 billion in 2005-06 and \$14.3 billion in 2006-07.

These projections of the fiscal surplus reflect the effects of the slowdown in economic growth in both 2001 and 2002 and the rebound in the years thereafter. In addition, the agreements on health renewal and early childhood development reached by first ministers in September 2000 and the impact of the \$100-billion Five-Year Tax Reduction Plan further restrain the surplus projections to 2004-05 – the year in which the tax reduction plan is fully implemented. Thereafter larger surpluses are projected.

These fiscal projections are based on the October 2001 survey of private sector economists. Subsequently private sector economists have adjusted their short-term economic forecasts to incorporate more current data, including the third-quarter National Accounts results for Canada and the U.S., which were released on November 30, 2001. These adjusted economic assumptions were used in deriving the rolling two-year budget fiscal forecasts.

Enhancing Security for Canadians

The 2001 budget contains measures to enhance personal and economic security by: keeping Canadians safe, keeping terrorists out of Canada and keeping Canada's borders secure, open and efficient.

In total, the budget provides \$7.7 billion over the next five years to enhance security for Canadians. This includes \$6.5 billion for security, including air security and Canada's military. It also includes more than \$1.2 billion for border initiatives aimed at strengthening border security, facilitating the flow of goods and people, and improving border infrastructure.

Security

Intelligence and Policing

The budget includes \$1.6 billion over the next five years for intelligence and policing to:

- equip and deploy more intelligence officers and police officers;
- improve co-ordination and information sharing among law enforcement, intelligence and national security agencies;
- boost marine security through greater funding for coastal surveillance; and
- strengthen the role of the Financial Transactions and Reports Analysis Centre of Canada in cutting off terrorist financing.

Screening of Entrants to Canada

In total, \$1 billion will be provided over the next five years to improve the screening of visitors, immigrants and refugee claimants entering Canada. These initiatives include:

- better and more accurate screening both at Canada's ports of entry and abroad; and
- faster and more thorough screening of refugee claimants.

Emergency Preparedness and Military Deployment

Budget 2001 provides more than \$1.6 billion to:

- double the capacity of Joint Task Force Two – the Canadian Forces' elite anti-terrorist unit;
- support Canadian military participation in the international war on terrorism;
- fund military equipment purchases;
- improve laboratories and purchase specialized equipment to strengthen Canada's ability to respond to chemical, biological and nuclear threats; and
- improve the ability to protect Canada's critical infrastructure – such as water and energy utilities and transportation and communications systems.

A New Approach to Air Security

In total, \$2.2 billion will be provided over the next five years to make air travel more secure in accordance with rigorous new national Transport Canada standards. To ensure that these standards are met, the Government will create a new federal air security authority.

New air security measures will include:

- armed undercover police officers on Canadian aircraft;
- better-trained personnel to screen passengers and carry-on baggage;
- new state-of-the-art explosive detection systems at Canada's airports;
- enhanced policing in airports;
- permanent modifications to aircraft cockpit doors to make them more secure; and
- enhanced security zones at airports, including handling facilities and on tarmacs.

These measures will be funded by a new Air Travellers Security Charge to be paid by air travellers starting April 1, 2002.

A Secure, Open and Efficient Border

More than \$1.2 billion will be invested in border-related measures to address security concerns and enhance long-term economic prospects by making the Canada-U.S. border more open and efficient.

Border Security and Facilitation

Of the more than \$1.2 billion dedicated to border-related measures, \$646 million will be targeted to measures aimed at enhancing border security while facilitating the flow of goods and people between Canada and the United States. These include:

- new technology to help the Canada Customs and Revenue Agency facilitate the passage of goods and people at border-crossing points;
- new Canadian multi-agency Integrated Border Enforcement Teams to co-ordinate intelligence and enforcement efforts along the Canada-U.S. border;
- advanced information-sharing technology to help Customs officers screen travellers arriving at airports and other border-entry points;
- better equipment for detecting explosives, firearms and other dangers without delaying the flow of legitimate commerce or tourism; and
- new secure Internet-based technology to ease Customs compliance for small business.

Border Infrastructure

To help make the border more efficient, Budget 2001 also creates a new \$600-million program to improve infrastructure – such as highways, commercial vehicle processing centres and technology – that supports major border crossings. This will be done in co-operation with public and private sector partners on both sides of the border.

Strategic Investments: Bridging to the Future

Budget 2001 addresses immediate needs through targeted, strategic investments that provide a stimulative boost to confidence in the economy. It does so as it advances, in a fiscally affordable way, the long-term plan the Government has put in place.

Investing in Health Initiatives

Because Canada's publicly funded health care system reflects the fundamental values shared by all Canadians, the budget:

- confirms that the \$23.4 billion in funding to support health and early childhood development agreements reached by first ministers in September 2000 is fully protected;
- further strengthens the federal government's contribution to Canada's health care system by providing \$95 million to the Canadian Institute for Health Information; and
- provides a \$75-million increase to the annual budget of the Canadian Institutes of Health Research.

Investing in Skills, Learning and Research

Because the Government is committed to providing every opportunity for Canadians to upgrade their skills, and because research today is the source of new jobs tomorrow, the budget includes more than \$1.1 billion over three years to support skills, learning and research by:

- increasing funding for sector councils;
- improving support for people with disabilities who pursue higher education;
- reducing waiting period provisions for apprentices in the employment insurance (EI) program, allowing an income tax deduction for apprentice vehicle mechanics' tools, and assisting mentoring and business support to young entrepreneurs;

- exempting from income tax, tuition assistance for adult basic education provided under certain government programs, and extending access to the education tax credit;
- helping offset indirect research costs at universities and research hospitals;
- supporting leading-edge technologies and expanding regional innovation initiatives across the country through increased funding to the National Research Council of Canada;
- providing additional funding to the Natural Sciences and Engineering Research Council and the Social Sciences and Humanities Research Council; and
- extending funding for Internet initiatives including SchoolNet, the Community Access Program and Government On-Line, and building CA*net 4, a new generation of Internet broadband network architecture.

In total, the Government's expenditures on science and technology are estimated at \$7.4 billion in 2001-02, an increase of 25 per cent from the previous peak.

Investing in Strategic Infrastructure and the Environment

Because investments in infrastructure will both stimulate job creation and confidence in the short term and make the economy more productive and competitive in the long term, the budget announces targeted investments of nearly \$3 billion that:

- create the Strategic Infrastructure Foundation, with a minimum federal commitment of \$2 billion, to fund large strategic projects;
- confirm \$680 million in funding for a capital grants program to alleviate the shortage of affordable rental housing;
- double funding to the Green Municipal Enabling Fund and the Green Municipal Investment Fund; and
- enhance incentives for renewable energy and energy efficiency projects.

Aboriginal Children

Because the well-being of Aboriginal children today will lead to stronger First Nations communities in the future, this budget provides \$185 million over the next two years to:

- enhance programs such as child care and head start programs, which support early childhood development;
- intensify efforts to reduce the incidence of fetal alcohol syndrome and fetal alcohol effects on reserves; and
- provide increased funding to support children on reserves who have special needs at school.

Furthering International Assistance

Because Canada recognizes the importance of helping those most in need beyond its borders, the budget increases international assistance by \$1 billion over three years. Among other things, the budget will:

- commit \$500 million to a fund promoting sustainable development in Africa; and
- provide humanitarian emergency assistance in Afghanistan.

Financial Management in Uncertain Times

This budget projects balanced budgets or better for 2001-02 and for each of the next two fiscal years. The global economic outlook remains uncertain. However, even using the average of the four most pessimistic private sector forecasts, balanced budgets are still projected for each year of the budget plan.

Program spending is projected to increase by 9.4 per cent in 2001-02. Over three-quarters of this increase is due to higher cash transfers to the provinces and territories for health care, funding to enhance security, and higher EI and elderly benefits.

Budgetary revenues are projected to decline in 2001-02, reflecting the impact of the second year of the Government's tax reduction plan, the six-month deferral of monthly corporate tax instalment payments for small businesses, and the weakness in the economy.

The debt-to-GDP ratio is expected to fall to under 50 per cent in 2002-03, its lowest level in 17 years.

The unforeseen circumstances of both the global economic slowdown and the terrorist attacks of September 11th have created exceptional fiscal pressures. As a result, the Government will use the economic prudence and part of the Contingency Reserve for each year of the budget plan. The Contingency Reserve is set at \$1.5 billion for 2001-02, rising to \$2.0 billion in 2002-03 and \$2.5 billion in 2003-04. It is the Government's intention to rebuild the normal Contingency Reserve and economic prudence as soon as possible.

In good economic times the Government paid down a substantial amount of debt – \$35.8 billion in the last four years. Given the current economic weakness, it has decided not to pay down any debt this year. Any surplus at the end of fiscal year 2001-02 will be dedicated to the Strategic Infrastructure Foundation and the Africa Fund.

**Summary of Spending and Revenue Initiatives
Since the October 2000 Economic Statement**

Table 1 presents the fiscal impact of the spending and revenue initiatives proposed in this budget. Table 2 presents the fiscal impact of the measures announced since the October 2000 Economic Statement but before the 2001 budget. Table 3 shows the total fiscal impact of all measures proposed since the October 2000 Economic Statement.

The cumulative cost of the measures over the three years from 2001-02 to 2003-04 amounts to \$8.5 billion. Of this amount, \$4.2 billion, or nearly half, is for measures directed at enhancing security for Canadians.

Table 1*Spending and Revenue Initiatives Proposed in the 2001 Budget*

	2001- 2002	2002- 2003	2003- 2004
(millions of dollars)			
Spending initiatives proposed in this budget			
Enhancing security for Canadians			
Security	1,067	1,217	1,236
Secure, open and more efficient Canada-U.S. border	72	306	260
Total	1,139	1,523	1,496
Bridging to the future			
Investing in health	105	78	78
Investing in skills, learning and research	429	318	318
Strategic infrastructure and the environment	207	181	234
Strategic Infrastructure Foundation: minimum commitment of \$2 billion			
Aboriginal children		90	95
International assistance	215		285
Africa Fund: commitment of \$500 million			
Total	956	667	1,010
Departmental operations	569	361	198
Total spending initiatives	2,664	2,551	2,703
Revenue and cost recovery initiatives proposed in this budget			
Deferral of corporate income tax instalments for small businesses	2,000	-2,000	
Tax expenditures	10	40	60
Air Travellers Security Charge		-430	-445
Cost recovery		-50	-50
Total	2,010	-2,440	-435
Total spending, revenue and cost recovery initiatives	4,674	111	2,268

Table 2*Spending and Revenue Initiatives Announced Before the 2001 Budget*

	2001- 2002	2002- 2003	2003- 2004
(millions of dollars)			
Spending initiatives			
Improving the quality of life for Canadians and their children			
Community health and environment	173	180	167
Culture and branding Canada abroad	305	395	196
Crime prevention and drug strategy	30	30	30
Employment insurance benefits	35	89	89
Community safety and crime prevention	23	32	45
Total	565	726	526
Making Canada's economy more innovative			
Research and development			
Government On-line	120		
Providing essential public services			
Economic adjustment	183	103	120
Furthering international co-operation	25	37	26
Total	208	140	146
Total spending initiatives	894	866	672
Revenue initiatives			
Donations of certain publicly traded securities to charities		70	70
Tobacco tax increases	-275	-440	-440
Total	-275	-370	-370
Total spending and revenue initiatives	619	496	302

Table 3

*Spending and Revenue Initiatives Proposed
Since the October 2000 Economic Statement*

	2001- 2002	2002- 2003	2003- 2004
	(millions of dollars)		
Spending initiatives			
Enhancing security for Canadians	1,139	1,523	1,496
Bridging to the future	1,076	667	1,010
Improving the quality of life for Canadians and their children	565	726	526
Providing essential public services	777	501	344
Total	3,557	3,417	3,375
Revenue and cost recovery initiatives			
Deferral of corporate income tax instalments for small businesses	2,000	-2,000	
Tax expenditures	10	105	120
Air Travellers Security Charge		-430	-445
Tobacco tax increases	-275	-440	-440
Cost recovery		-50	-50
Total	1,735	-2,815	-815
Total spending and revenue initiatives since the October 2000 economic statement	5,293	602	2,560

Note: Numbers may not add due to rounding.

Fiscal Outlook to 2003-04

Table 4 presents the fiscal outlook to 2003-04, taking into account the spending and revenue initiatives proposed since the October 2000 Economic Statement.

Table 4

Summary Statement of Transactions: Budget 2001

	2000- 2001	2001- 2002	2002- 2003	2003- 2004
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	178.6	171.3	174.7	180.7
Program spending	119.3	130.5	136.6	140.2
Operating balance	59.2	40.7	38.2	40.4
Public debt charges	42.1	39.2	36.3	38.1
Less: Contingency Reserve		1.5	2.0	2.5
Budgetary balance	17.1	0.0	0.0	0.0
Net public debt¹	547.4	547.4	547.4	547.4
Non-budgetary transactions				
Loans, investments and advances	-1.7	-1.9	-1.9	-2.2
Pensions and other accounts	1.3	-1.7	0.0	2.6
Other	2.2	1.7	0.9	0.8
Total	1.8	-1.9	-1.0	1.2
Financial requirements/source	19.0	-1.9	-1.0	1.2
Per cent of GDP				
Budgetary revenues	16.9	15.8	15.9	15.5
Program spending	11.3	12.0	12.4	12.1
Public debt charges	4.0	3.6	3.3	3.3
Net public debt ¹	51.8	50.5	49.9	47.1

Note: Numbers may not add due to rounding.

¹ Assumes no incremental debt paydown.

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